# III. Detailed Notes On All Funds

### *Transfers*

Net transfers by major funds are as follows (expressed in thousands):

| Fund | Net Transfers In | Net Transfers Out |
|---|---|---|
| General | $ 0 | $ 51,897 |
| Social Services | 732,709 | 0 |
| Health & Environment | 0 | 733,436 |
| Transportation | 0 | 382,784 |
| Transportation-Capital Projects | 0 | 61,403 |
| Non-major Governmental | 673,865 | 0 |
| Unemployment Insurance | 0 | 16,735 |
| Health Care Stabilization | 3,819 | 0 |
| Non-major Enterprise Funds | 0 | 158,975 |
| Internal Service Funds | 0 | 5,163 |
| Total | $ 1,410,393 | $ 1,410,393 |

Transfers are used to (1) move revenues from fund that the statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts and (3) use unrestricted revenues collected in a fund that is used to finance various programs and capital outlay projects accounted for in another fund in accordance with budgetary authorizations. Any transfers within the governmental funds or within the proprietary funds have been eliminated in the Government-Wide Statement of Activities.

### H. Short-term Obligations

Short-term obligations at June 30, 2014, and changes for the fiscal year then ended (expressed in thousands) are as follows:

| | 6/30/2013 Beginning Balance | Additions | Deletions | 6/30/2014 Ending Balance |
|---|---|---|---|---|
| *Governmental Activities* | | | | |
| Certificates of Indebtedness | $ 0 | $ 300,000 | $ 300,000 | $ 0 |
| Accrued receivables: | | | | |
| State Building Fund | 0 | 43,378 | 43,378 | 0 |
| Expanded Lottery Act Revenues Fund | 0 | 82,926 | 82,926 | 0 |
| Children's Initiatives Fund | 0 | 28,050 | 28,050 | 0 |
| Correctional Institution Building Fund | 0 | 3,994 | 3,994 | 0 |
| State Economic Development | 0 | 21,266 | 21,266 | 0 |
| Kansas Endowment for Youth Fund | 0 | 195 | 195 | 0 |
| Total short-term obligations | $ 0 | $ 479,809 | $ 479,809 | $ 0 |

A Certificate of Indebtedness may be written and issued by the Pooled Money Investment Board (PMIB), an agency of the State, per K.S.A. 75-3725a. This occurs when it appears estimated resources are sufficient in the State General Fund (SGF) to meet the State's expenditures and obligations for that fiscal year, but may not be sufficient to do so in a particular month(s) when obligations are due. Once approval has been granted as prescribed in K.S.A. 75-3725a, the written Certificate of Indebtedness is issued by the PMIB subject to redemption from the SGF not later

# III. Detailed Notes On All Funds

than June 30, immediately following the issuance of the indebtedness. No interest is accrued or paid. A Certificate of Indebtedness of $300 million was issued on July 1, 2013, and redeemed on June 18, 2014.

Per K.S.A. 76-6b11, on July 1 of each year ad valorem tax and receivables are posted to the State Treasurer's receivables for the State Buildings Fund. The receivable is reduced as the ad valorem taxes are received. In fiscal year 2014, $28.9 million was posted to the Kansas Educational Building Fund and $14.5 million to the State Institutions Buildings Fund. The receipts reduced the receivable to zero in June 2014.

Per Senate Bill 171, Section 111(r) of the 2013 Session, on July 1, 2013, receivables are to be posted to the State Treasurer's receivables for the Expanded Lottery Act Revenues Fund. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2014, a receivable was posted for $83.9 million and was reduced to zero in June 2014.

Per Senate Bill 171, Section 111(h) of the 2013 Session, on July 1, 2013, receivables are to be posted to the State Treasurer's receivables for the Children's Initiatives Fund by an amount certified by the director of budget which is to be 65 percent of the estimated receipts during the year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2014 a receivable was posted for $28.1 million and was reduced to zero in April 2014.

Per Senate Bill 171, Section 111(j) of the 2013 Session, on July 1, 2013, receivables are to be posted to the State Treasurer's receivables for the Correctional Institutions Building Fund by an amount certified by the director of budget which is to be 80 percent of the estimated receipts during the year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2014, a receivable was posted for $4.0 million and was reduced to zero in January 2014.

Per Senate Bill 171, Section 111(h) of the 2013 Session, on July 1, 2013, receivables are to be posted to the State Treasurer's receivables for the State Economic Development Initiatives Fund by an amount certified by the director of budget which is to be 50 percent of the estimated receipts during the year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2014, a receivable was posted for $21.3 million and was reduced to zero in November 2013.

Per Senate Bill 171, Section 111(k) of the 2013 Session, on July 1, 2013, receivables are to be posted to the State Treasurer's receivables for the Kansas Endowment for Youth Fund by an amount certified by the director of budget which is to be 80 percent of the amount approved for expenditure during the fiscal year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2014, a receivable was posted for $195,000 and was reduced to zero in April 2014.

# III. Detailed Notes On All Funds

## I. Long-term Obligations

A summary of long-term obligations at June 30, 2014, for the fiscal year then ended is as follows (expressed in thousands):

| | Governmental Activities | Business-type Activities | Component Units | Total |
|---|---|---|---|---|
| Revenue bonds payable | $ 3,064,685 | $ 452,317 | $ 809,260 | $ 4,326,262 |
| Less bonds payable on demand | (383,215) | - | - | (383,215) |
| Sales tax limited obligation bonds | 25,025 | - | - | 25,025 |
| Sales tax accretion bonds | 80,008 | - | - | 80,008 |
| Notes payable | 15,350 | - | 333,000 | 348,350 |
| Capital leases payable | 91,027 | - | 9,380 | 100,407 |
| Arbitrage rebate payable | 190 | 190 | 51 | 431 |
| Claims | 95,993 | 198,631 | - | 294,624 |
| Judgments | 58,464 | - | | 58,464 |
| Compensated absences | 120,831 | 89 | 78,918 | 199,838 |
| Other post employment benefits | 58,631 | 412 | 64,993 | 124,036 |
| Pollution remediation | 65,678 | - | - | 65,678 |
| Other | - | 11,965 | 252,759 | 264,724 |
| Total long-term obligations | $ 3,292,667 | $ 663,604 | $ 1,548,361 | $ 5,504,632 |

# III. Detailed Notes On All Funds

Long-term obligations at June 30, 2014, and changes for the fiscal year then ended are as follows (expressed in thousands):

| | Issue Dates | Interest Rates | Maturity Through | Original Amount of Debt | 6/30/2013 Beginning Balance | Additions | Deletions | 6/30/2014 Ending Balance | Amounts Due In One Year |
|---|---|---|---|---|---|---|---|---|---|
| **Governmental Activities** | | | | | | | | | |
| Revenue bonds payable: | | | | | | | | | |
| KDFA series 2003 H | 2004 | 1.41 - 5.21% | 2014 | $ 40,250 | $ 4,890 | $ - | $ 4,890 | $ - | $ - |
| KDFA series 2004 A-1, 2 & 3 | 2004 | 2.00 - 5.00% | 2015 | 44,920 | 29,225 | - | 27,060 | 2,165 | 2,165 |
| KDFA series 2004 C | 2004 | 3.43 - 5.50% | 2034 | 500,000 | 445,710 | - | 12,275 | 433,435 | 12,835 |
| KDFA series 2005 H-1, 2, 3, 4 & 5 | 2006 | 3.25 - 5.00% | 2032 | 88,175 | 63,155 | - | 4,755 | 58,400 | 5,420 |
| KDFA series 2006 A | 2006 | 4.00 - 5.00% | 2027 | 209,490 | 164,705 | - | 8,580 | 156,125 | 8,960 |
| KDFA series 2006 L-1, 2, 3 | 2007 | 4.00 - 4.25% | 2026 | 13,210 | 9,135 | - | 775 | 8,360 | 810 |
| KDFA series 2007 F | 2007 | 4.00 - 4.97% | 2017 | 34,505 | 15,805 | - | 3,675 | 12,130 | 3,850 |
| KDFA series 2007 K-1, 2A, 2B, & 3 | 2008 | 4.00 - 5.25% | 2028 | 59,455 | 49,210 | - | 2,320 | 46,890 | 2,425 |
| KDFA series 2008 L-1, 2, & 3 | 2009 | 2.00 - 5.25% | 2029 | 43,265 | 36,900 | - | 1,730 | 35,170 | 1,785 |
| KDFA series 2009 A | 2009 | 2.50 - 5.00% | 2035 | 3,825 | 3,825 | - | - | 3,825 | 120 |
| KDFA series 2009 B | 2009 | 5.00% | 2019 | 515 | 515 | - | - | 515 | 95 |
| KDFA series 2009 F | 2009 | 3.00 - 5.00% | 2019 | 49,425 | 38,390 | - | 5,765 | 32,625 | 5,940 |
| KDFA series 2009 M-1 & M-2 | 2010 | 3.00 - 6.31% | 2035 | 89,765 | 81,460 | - | 2,865 | 78,595 | 2,950 |
| KDFA series 2009 N | 2010 | 3.88 - 5.80% | 2025 | 10,050 | 10,050 | - | - | 10,050 | 710 |
| KDFA series 2010 C | 2010 | 5.00% | 2020 | 52,755 | 42,945 | - | 5,275 | 37,670 | 5,540 |
| KDFA series 2010 E-1 & E-2 | 2010 | 2.00 - 6.12% | 2035 | 84,160 | 82,590 | - | 3,095 | 79,495 | 5,210 |
| KDFA series 2010 F | 2010 | 1.58 - 6.25% | 2032 | 18,400 | 15,790 | - | 1,345 | 14,445 | 1,805 |
| KDFA series 2010 O-1 & O-2 | 2011 | 2.70 - 6.10% | 2030 | 43,455 | 39,945 | - | 1,855 | 38,090 | 1,885 |
| KDFA series 2011 B | 2012 | 2.00 - 4.13% | 2031 | 53,780 | 49,170 | - | 1,985 | 47,185 | 2,045 |
| KDFA series 2011 K | 2012 | 3.00 - 5.00% | 2023 | 109,135 | 102,490 | - | 2,375 | 100,115 | 2,470 |
| KDFA series 2013 A-1, 2 & 3 | 2014 | 4.00 - 5.00% | 2033 | 71,885 | - | 71,885 | 2,485 | 69,400 | 2,665 |
| KDFA Series 2013 B | 2014 | 3.00 - 5.00% | 2024 | 40,555 | - | 40,555 | 3,335 | 37,220 | 3,020 |
| KDOT series 1998 | 1998 | 3.65 - 5.50% | 2014 | 189,195 | 11,465 | - | 11,465 | - | - |
| KDOT series 2002 B & C* | 2003 | 3.39% | 2020 | 320,005 | 258,735 | - | 22,520 | 236,215 | 23,340 |
| KDOT series 2003 A | 2004 | 3.13 - 5.00% | 2014 | 164,275 | 46,250 | - | 46,250 | - | - |
| KDOT series 2004 A | 2004 | 4.50 - 5.50% | 2019 | 250,000 | 76,235 | - | - | 76,235 | - |
| KDOT series 2004 B | 2005 | 4.30 - 5.00% | 2025 | 200,000 | 200,000 | - | - | 200,000 | - |
| KDOT series 2004 C* | 2005 | Variable | 2025 | 147,000 | 147,000 | - | - | 147,000 | - |
| KDOT series 2009 A | 2010 | 2.25 - 5.00% | 2021 | 176,680 | 176,680 | - | - | 176,680 | - |
| KDOT series 2010 A | 2011 | 4.60% | 2036 | 325,000 | 325,000 | - | - | 325,000 | - |
| KDOT series 2012 A | 2013 | Variable | 2016 | 151,365 | 151,365 | - | 23,075 | 128,290 | 90,065 |
| KDOT series 2012 B | 2013 | 5.00% | 2023 | 144,885 | 144,885 | - | - | 144,885 | - |
| KDOT series 2012 C | 2013 | 4.00 - 5.00% | 2033 | 200,000 | 200,000 | - | - | 200,000 | - |
| | | | | | | | | 2,936,210 | 186,110 |
| Less bonds payable on demand* | | | | (705,985) | (405,735) | - | (22,520) | (383,215) | (23,340) |
| Plus deferred amounts: | | | | | | | | | |
| Net unamortized premium (discount) | | | | - | 133,656 | 13,553 | 18,734 | 128,475 | - |
| Total revenue bonds payable | | | | $ 3,223,395 | 2,751,441 | 125,993 | 195,964 | 2,681,470 | 162,770 |
| | | | | | | | | | |
| Sales tax limited obligation bonds: | | | | | | | | | |
| 1999 KISC | 1999 | 4.20 - 5.25% | 2028 | 18,182 | 15,766 | - | 547 | 15,219 | 598 |
| 400 acres refunding | 2005 | 3.25 - 5.54% | 2021 | 4,077 | 2,951 | - | 431 | 2,520 | 319 |
| 2012 refunding bond | 2013 | 2.00 - 5.00% | 2016 | 9,589 | 9,589 | - | 2,303 | 7,286 | 2,351 |
| Salt museum | 2006 | 5.00% | 2014 | 4,063 | 75 | - | 75 | - | - |
| Total sales tax limited obligation bonds | | | | $ 35,911 | 28,381 | - | 3,356 | 25,025 | 3,268 |
| | | | | | | | | | |
| Notes payable: | | | | | | | | | |
| Water supply storage in federal reservoirs | | | | 29,189 | 16,084 | - | 734 | 15,350 | 760 |
| KDFA bond anticipation note series 2012-1 & 2013-1 | | | | 3,225 | 47,016 | - | 47,016 | - | - |
| Total notes payable | | | | $ 32,414 | 63,100 | - | 47,750 | 15,350 | 760 |
| | | | | | | | | | |
| Arbitrage rebate payable | | | | | 136 | 71 | 17 | 190 | - |
| Sales tax limited oblgiation accretion bonds | | | | | 111,281 | 12,897 | 44,170 | 80,008 | - |
| Capital leases payable | | | | | 97,515 | 11,777 | 18,265 | 91,027 | 12,266 |
| Claims | | | | | 83,555 | 426,770 | 414,332 | 95,993 | 43,742 |
| Judgments | | | | | 18,830 | 42,499 | 2,865 | 58,464 | 5,692 |
| Compensated absences | | | | | 118,656 | 10,806 | 8,631 | 120,831 | 58,271 |
| Other post employment benefits | | | | | 55,079 | 15,389 | 11,837 | 58,631 | - |
| Pollution remediation | | | | | 63,575 | 2,103 | - | 65,678 | 17,711 |
| *Total governmental activities* | | | | | $ 3,391,549 | $ 648,305 | $ 747,187 | $ 3,292,667 | $ 304,480 |

# III. Detailed Notes On All Funds

| | Issue Dates | Interest Rates | Maturity Through | Original Amount of Debt | 6/30/2013 Beginning Balance | Additions | Deletions | 6/30/2014 Ending Balance | Amounts Due In One Year |
|---|---|---|---|---|---|---|---|---|---|
| **Business-type Activities** | | | | | | | | | |
| Revenue bonds payable: | | | | | | | | | |
| KDFA series 2001 I & II | 2002 | 5.00 - 5.50% | 2018 | $ 124,540 | $ 50,575 | $ - | $ 10,075 | $ 40,500 | $ 9,500 |
| KDFA series 2004 II | 2004 | 4.92 - 5.25% | 2023 | 45,140 | 8,435 | - | 2,710 | 5,725 | 2,810 |
| KDFA series 2004 1 & 2 | 2005 | 3.00 - 5.00% | 2019 | 176,010 | 3,850 | - | 850 | 3,000 | 895 |
| KDFA series 2005 CW I & II | 2006 | 3.00 - 5.00% | 2027 | 118,860 | 58,360 | - | 10,040 | 48,320 | 11,340 |
| KDFA series 2008 CW I & II | 2009 | 3.00 - 5.00% | 2014 | 66,545 | 2,820 | - | 2,820 | - | - |
| KDFA series 2009 DW 1 & 2 | 2010 | 1.50 - 5.60% | 2029 | 73,040 | 37,545 | - | 715 | 36,830 | 760 |
| KDFA series 2010 SRF 1,2 & 3 (CW & DW) | 2011 | 1.68 - 5.95% | 2030 | 213,950 | 203,880 | - | 10,915 | 192,965 | 9,640 |
| KDFA series 2011 SRF DW 1 & 2 | 2011 | 2.00-4.20% | 2031 | 53,380 | 53,295 | - | 270 | 53,025 | 370 |
| KDFA series 2005 TR | 2006 | 3.00 - 5.00% | 2026 | 32,690 | 19,955 | - | 2,265 | 17,690 | 2,295 |
| KDFA series 2006 TR | 2007 | 4.00 - 5.00% | 2027 | 24,755 | 14,485 | - | 1,855 | 12,630 | 1,960 |
| KDFA series 2008 G | 2009 | 4.60 - 5.05% | 2023 | 14,200 | 1,387 | - | 191 | 1,196 | 200 |
| KDFA series 2009 TR | 2009 | 2.50 - 4.78% | 2028 | 30,950 | 22,950 | - | 1,980 | 20,970 | 1,475 |
| KDFA series 2013 SRF | 2013 | 0.50% | 2014 | 2,666 | 2,666 | - | 2,666 | - | - |
| KDFA series 2013 SRF-2 | 2014 | 0.50% | 2015 | 5,100 | - | 5,100 | - | 5,100 | 5,100 |
| Plus deferred amounts: | | | | | | | | | |
| Net unamortized premium (discount) | | | | - | 17,542 | - | 3,176 | 14,366 | 4,149 |
| Total revenue bonds payable | | | | $ 981,826 | 497,745 | 5,100 | 50,528 | 452,317 | 50,494 |
| Arbitrage rebate payable | | | | | 196 | - | 6 | 190 | - |
| Claims and judgments | | | | | 200,180 | 103 | 1,652 | 198,631 | 18,456 |
| Compensated absences | | | | | 75 | 14 | - | 89 | 73 |
| Other | | | | | 12,992 | - | 1,027 | 11,965 | - |
| Other post employment benefits | | | | | 378 | 34 | - | 412 | - |
| Unemployment benefits loan | | | | | 50,209 | - | 50,209 | - | - |
| *Total business-type activities* | | | | | $ 761,775 | $ 5,251 | $ 103,422 | $ 663,604 | $ 69,023 |

# III. Detailed Notes On All Funds

| | Issue Dates | Interest Rates | Maturity Through | Original Amount of Debt | 6/30/2013 Beginning Balance | Additions | Deletions | 6/30/2014 Ending Balance | Amounts Due In One Year |
|---|---|---|---|---|---|---|---|---|---|
| **Component Units** | | | | | | | | | |
| Revenue bonds payable: | | | | | | | | | |
| KDFA series 2001 B | 2001 | 3.65 - 5.20% | 2021 | 2,805 | 1,445 | - | 150 | 1,295 | 160 |
| KDFA series 2001 D | 2001 | 4.25 - 5.25% | 2014 | 48,895 | 25,585 | - | 25,585 | - | - |
| KDFA series 2001 G1 | 2001 | 4.25 - 5.25% | 2014 | 7,230 | 150 | - | 150 | - | - |
| KDFA series 2001 W-1,3,4 & 5 | 2002 | 3.00 - 5.00% | 2022 | 44,470 | 985 | - | 90 | 895 | 95 |
| KDFA series 2002 A-1 & A-2 | 2002 | 3.50 - 4.38% | 2014 | 11,230 | 330 | - | 330 | - | - |
| KDFA series 2002 H | 2003 | 2.50 - 4.70% | 2022 | 3,765 | 2,020 | - | 190 | 1,830 | 195 |
| KDFA series 2002 N-1 & N-2 | 2003 | 3.00 - 5.25% | 2018 | 52,075 | 4,000 | - | 2,670 | 1,330 | 305 |
| KDFA series 2003 A-1 & A-2 | 2003 | 1.80 - 5.50% | 2023 | 2,610 | 1,605 | - | 1,355 | 250 | 135 |
| KDFA series 2003 C | 2003 | 4.67 - 5.00% | 2024 | 2,305 | 2,305 | - | - | 2,305 | - |
| KDFA series 2003 D-2 | 2003 | 2.00 - 4.13% | 2018 | 1,150 | 515 | - | 75 | 440 | 75 |
| KDFA series 2003 J-1 | 2004 | 2.00 - 5.25% | 2014 | 34,100 | 4,780 | - | 4,780 | - | - |
| KDFA series 2004 D | 2005 | 3.00 - 4.75% | 2014 | 1,195 | 705 | - | 705 | - | - |
| KDFA series 2004 G-1 | 2005 | 2.50 - 5.13% | 2024 | 19,795 | 12,545 | - | 12,545 | - | - |
| KDFA series 2005 A | 2005 | 3.00 - 5.00% | 2035 | 44,535 | 38,080 | - | 35,955 | 2,125 | 1,090 |
| KDFA series 2005 D | 2005 | 3.79 - 5.18% | 2022 | 66,530 | 26,955 | - | 5,705 | 21,250 | 4,290 |
| KDFA series 2005 E-1 & E-2 | 2005 | 3.00 - 5.00% | 2030 | 19,360 | 15,620 | - | 14,285 | 1,335 | 655 |
| KDFA series 2005 F | 2006 | 3.25 - 4.40% | 2026 | 8,930 | 7,025 | - | 415 | 6,610 | 450 |
| KDFA series 2005 G | 2006 | 3.30 - 4.60% | 2026 | 7,205 | 5,905 | - | 355 | 5,550 | 370 |
| KDFA series 2006 B | 2006 | 3.50 - 4.13% | 2021 | 9,790 | 9,015 | - | - | 9,015 | 1,140 |
| KDFA series 2007 A | 2007 | 3.75 - 4.39% | 2037 | 27,750 | 24,595 | - | 15,945 | 8,650 | 645 |
| KDFA series 2007 E | 2007 | 3.75 - 4.30% | 2027 | 6,275 | 4,885 | - | 265 | 4,620 | 280 |
| KDFA series 2007 H | 2008 | 3.60 – 4.50% | 2037 | 17,855 | 16,045 | - | 400 | 15,645 | 420 |
| KDFA series 2007 M | 2008 | 3.50 – 4.60% | 2027 | 18,220 | 14,630 | - | 800 | 13,830 | 830 |
| KDFA series 2008 A | 2008 | 3.00 – 4.00% | 2016 | 20,000 | 7,500 | - | 2,500 | 5,000 | 2,500 |
| KDFA series 2008 D | 2008 | 5.10% | 2038 | 1,600 | 1,600 | - | - | 1,600 | - |
| KDFA series 2008 L | 2009 | 2.00 - 5.25% | 2029 | 21,070 | 18,080 | - | 810 | 17,270 | 835 |
| KDFA series 2009 C | 2009 | 3.00 - 5.00% | 2017 | 20,000 | 10,000 | - | 2,500 | 7,500 | 2,500 |
| KDFA series 2009 G | 2009 | 2.50 - 4.75% | 2024 | 825 | 640 | - | 50 | 590 | 50 |
| KDFA series 2009 H-1 & H-2 | 2009 | 2.50 - 7.30% | 2035 | 14,630 | 13,860 | - | 400 | 13,460 | 410 |
| KDFA series 2009 J-1 & J-2 | 2009 | 2.50 - 7.00 % | 2030 | 4,545 | 4,055 | - | 175 | 3,880 | 180 |
| KDFA series 2009 K-1 & K-2 | 2010 | 2.63 - 5.63% | 2040 | 6,140 | 6,030 | - | 115 | 5,915 | 120 |
| KDFA series 2009 M-1 & M-2 | 2010 | 3.00 - 6.31% | 2030 | 27,150 | 24,880 | - | 1,200 | 23,680 | 1,245 |
| KDFA series 2010 A | 2010 | 2.00 - 4.05% | 2030 | 23,700 | 21,815 | - | 670 | 21,145 | 1,040 |
| KDFA series 2010 B | 2010 | 2.50 - 3.75% | 2027 | 21,650 | 19,175 | - | 1,175 | 18,000 | 1,110 |
| KDFA series 2010 D | 2010 | 3.12% | 2014 | 1,315 | 680 | - | 680 | - | - |
| KDFA series 2010 G-1 & G-2 | 2010 | 2.00 - 6.60% | 2040 | 21,565 | 21,565 | - | 500 | 21,065 | 505 |
| KDFA series 2010 H | 2010 | 2.00% | 2016 | 1,530 | 775 | - | 260 | 515 | 265 |
| KDFA series 2010 J | 2010 | 0.75 - 4.45% | 2030 | 14,765 | 13,030 | - | 585 | 12,445 | 600 |
| KDFA series 2010 K-1 & K-2 | 2010 | 2.00 - 6.20% | 2035 | 15,050 | 11,645 | - | 745 | 10,900 | 295 |
| KDFA series 2010 M-1 & M-2 | 2010 | 2.00 - 5.10% | 2026 | 20,990 | 18,615 | - | 1,225 | 17,390 | 1,250 |
| KDFA series 2010 P-1 & P-2 | 2011 | 2.00 - 5.00% | 2031 | 15,930 | 14,680 | - | 645 | 14,035 | 665 |
| KDFA series 2010 U-1 & U-2 | 2011 | 1.80 - 6.20% | 2029 | 25,180 | 22,160 | - | 1,825 | 20,335 | 1,835 |
| KDFA series 2011 C | 2011 | 2.00 - 4.50% | 2036 | 13,450 | 12,695 | - | 375 | 12,320 | 385 |
| KDFA series 2011 D-1, 2 & 3 | 2011 | 2.00 - 4.40% | 2024 | 9,465 | 7,970 | - | 790 | 7,180 | 805 |
| KDFA series 2011 G | 2012 | 0.50 - 4.13% | 2041 | 16,300 | 15,230 | - | 360 | 14,870 | 370 |
| KDFA series 2012 A | 2012 | 3.00 - 5.00% | 2024 | 27,610 | 25,715 | - | 1,995 | 23,720 | 2,100 |
| KDFA series 2012 D | 2012 | 2.00 - 4.50% | 2029 | 49,200 | 47,465 | - | 1,625 | 45,840 | 1,695 |
| KDFA series 2012 F | 2013 | 2.00 - 5.00% | 2033 | 17,205 | 17,205 | - | 615 | 16,590 | 630 |
| KDFA series 2012 H | 2012 | 2.00 - 5.00% | 2034 | 35,970 | 35,505 | - | 80 | 35,425 | 1,155 |
| KDFA series 2014 A-1 & 2 | 2014 | 3.00 - 4.25% | 2035 | 35,175 | - | 35,175 | - | 35,175 | 385 |
| KDFA series 2014 B | 2014 | 0.50% | 2019 | 2,423 | - | 2,423 | - | 2,423 | 480 |
| KDFA series 2014 C-1, 2, 3, 4 & 5 | 2014 | 3.00 - 5.00% | 2039 | 56,655 | - | 56,655 | - | 56,655 | 35 |
| KDFA seres 2014 D-1, 2, 3 & 4 | 2014 | 3.00 - 5.00% | 2035 | 133,550 | - | 133,550 | - | 133,550 | 1,270 |
| KDFA series 2013 G-1 & 2 | 2014 | 4.00 - 5.00% | 2038 | 77,335 | - | 77,335 | - | 77,335 | 520 |
| Plus deferred amounts: | | | | | | | | | |
| Net unamortized premium (discount) | | | | - | 26,058 | 13,377 | 2,958 | 36,477 | - |
| Total revenue bonds payable | | | | $ 1,210,048 | 638,353 | 318,515 | 147,608 | 809,260 | 36,370 |
| | | | | | | | | | |
| Notes payable: | | | | | | | | | |
| Component units of university system | | | | | 249,623 | 133,266 | 49,889 | 333,000 | 18,353 |
| KDFA bond anticipation note series 2013 1 & 2 | | | | | 12,798 | - | 12,798 | - | - |
| Total notes payable | | | | | 262,421 | 133,266 | 62,687 | 333,000 | 18,353 |
| | | | | | | | | | |
| Arbitrage rebate payable | | | | | 49 | 2 | - | 51 | - |
| Capital leases | | | | | 11,991 | - | 2,611 | 9,380 | 1,562 |
| Compensated absences | | | | | 72,630 | 8,296 | 2,008 | 78,918 | 63,761 |
| Other | | | | | 314,561 | 1,273 | 63,075 | 252,759 | 14,032 |
| Other post employment benefits | | | | | 57,274 | 10,371 | 2,652 | 64,993 | - |
| *Total component units* | | | | | $ 1,357,279 | $ 471,723 | $ 280,641 | $ 1,548,361 | $ 134,078 |

# III. Detailed Notes On All Funds

The following table presents annual debt service requirements for those long-term debts outstanding, including bonds payable on demand, at June 30, 2014, which have scheduled debt service amounts (expressed in thousands):

| | Governmental Activities | | Business-type Activities | | Component Units | |
|---|---|---|---|---|---|---|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| Revenue bonds: | | | | | | |
| 2015 | $ 186,110 | $ 130,613 | $ 46,345 | $ 20,185 | $ 36,370 | $ 31,315 |
| 2016 | 177,845 | 125,726 | 43,184 | 18,156 | 40,552 | 30,995 |
| 2017 | 183,090 | 118,816 | 35,479 | 16,071 | 38,870 | 29,409 |
| 2018 | 187,510 | 111,554 | 36,284 | 14,373 | 37,937 | 27,804 |
| 2019 | 199,500 | 102,856 | 38,347 | 12,826 | 37,829 | 26,207 |
| 2020-2024 | 972,935 | 368,009 | 152,627 | 41,371 | 199,780 | 104,989 |
| 2025-2029 | 444,930 | 191,355 | 71,395 | 12,861 | 177,535 | 63,107 |
| 2030-2034 | 444,310 | 98,452 | 14,290 | 848 | 111,520 | 33,748 |
| 2035-2039 | 139,980 | 6,397 | - | - | 70,835 | 12,832 |
| 2040-2044 | - | - | - | - | 21,555 | 2,399 |
| Less bonds payable on demand | (383,215) | (73,101) | - | - | - | - |
| Unamortized premium | 128,475 | - | 14,366 | - | 24,948 | - |
| Totals | 2,681,470 | 1,180,677 | 452,317 | 136,691 | 797,731 | 362,805 |
| Sales tax limited obligation bonds: | | | | | | |
| 2015 | 3,268 | 1,284 | - | - | - | - |
| 2016 | 3,369 | 1,216 | - | - | - | - |
| 2017 | 3,540 | 1,108 | - | - | - | - |
| 2018 | 1,149 | 1,043 | - | - | - | - |
| 2019 | 1,206 | 1,030 | - | - | - | - |
| 2020-2024 | 6,039 | 4,963 | - | - | - | - |
| 2025-2029 | 6,454 | 6,328 | - | - | - | - |
| Totals | 25,025 | 16,972 | - | - | - | - |
| Notes payable: | | | | | | |
| 2015 | 760 | 607 | - | - | 18,353 | 11,726 |
| 2016 | 788 | 579 | - | - | 37,320 | 11,406 |
| 2017 | 817 | 550 | - | - | 15,760 | 11,018 |
| 2018 | 848 | 520 | - | - | 15,372 | 10,603 |
| 2019 | 879 | 488 | - | - | 12,369 | 10,068 |
| 2020-2024 | 4,914 | 1,923 | - | - | 102,751 | 43,590 |
| 2025-2029 | 4,417 | 991 | - | - | 48,493 | 30,808 |
| 2030-2034 | 1,927 | 180 | - | - | 44,859 | 17,736 |
| 2035-2039 | | - | - | - | 14,373 | 9,745 |
| 2040-2044 | - | - | - | - | 23,350 | 4,605 |
| Totals | 15,350 | 5,838 | - | - | 333,000 | 161,305 |
| Capital leases payable | 91,027 | 30,236 | - | - | 9,380 | 1,562 |
| Long-term debt without scheduled | | | | | | |
| Debt service: | | | | | | |
| Arbitrage rebate payable | 190 | - | 190 | - | 51 | - |
| Sales tax ltd oblig:accretion bonds | 80,008 | - | - | - | - | - |
| Unemployment benefits loan | - | - | - | - | - | - |
| Claims and judgments | 154,457 | - | 198,631 | - | - | - |
| Compensated absences | 120,831 | - | 89 | - | 78,918 | - |
| Other post employment benefits | 58,631 | - | 412 | - | 64,993 | - |
| Pollution remediation | 65,678 | - | - | - | - | - |
| Other | - | - | 11,965 | - | 264,288 | - |
| Total long-term obligations | $ 3,292,667 | $ 1,233,723 | $ 663,604 | $ 136,691 | $ 1,548,361 | $ 525,672 |

# III. Detailed Notes On All Funds

Included in the debt service requirements to maturity table above are variable rate debt maturities for the Kansas Department of Transportation. For those variable rate bonds the following table represents the aggregate debt service requirements and net receipts/payments on associated hedging derivative instruments as of June 30, 2014. These amounts assume that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for their entire term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments will vary.

*(expressed in thousands)*

| Fiscal Year Ended June 30 | Principal | Interest | Hedging Derivative Instruments (Net) | Total |
|---|---|---|---|---|
| 2015 | $ 113,405 | $ 190 | $ 11,869 | $ 125,464 |
| 2016 | 75,225 | 169 | 8,866 | 84,260 |
| 2017 | 38,145 | 146 | 7,100 | 45,391 |
| 2018 | 39,520 | 122 | 5,911 | 45,553 |
| 2019 | 49,945 | 93 | 4,552 | 54,590 |
| 2020-2024 | 148,265 | 227 | 9,956 | 158,448 |
| 2025-2029 | 47,000 | 3 | 387 | 47,390 |
| Total | $ 511,505 | $ 950 | $ 48,641 | $ 561,096 |

**General Obligation Bonds**

The State does not have the statutory authority to issue general obligation bonds. However, the Legislature has authorized the issuance of specific purpose revenue bonds and other forms of long-term obligations.

**Revenue Bonds**

**Kansas Turnpike Authority** (KTA) has 5 outstanding series of Turnpike Revenue Bonds to finance part of the costs of construction, reconstruction, maintenance or improvement of the Kansas Turnpike. Principal and interest payments on these bond issues are paid from revenues collected from the operations of KTA, including toll revenues. Please reference Note III, Section I, Long-term Obligations, for KTA revenue bonds and future principal and interest payments.

**Kansas Development Finance Authority** (KDFA) was created to enhance the ability of the State to finance capital improvements and improve access to long-term financing for State agencies, political subdivisions, public and private organizations, and businesses. The KDFA has issued numerous outstanding series of bonds. These revenue bonds are secured by and payable from various pledged revenues, which include selected tax receipts such as withholding taxes, fees for services such as parking and residential halls, and appropriations. Please reference Note III, Section I, Long-term Obligations, for KDFA revenue bonds and future principal and interest payments.

**Kansas Department of Transportation** (KDOT) has 12 outstanding series of Highway Revenue Bonds to finance part of the costs of construction, reconstruction, maintenance or improvement of highways in the State as part of the State's Transportation Works for Kansas (T-Works) Program. The State's T-Works Program was developed by KDOT after extensive study of the transportation needs in the State and was implemented by the 2010 Kansas Legislature. Principal and interest payments on these bond issues are paid from revenues collected in the State Highway Fund, which include motor fuels taxes, state sales taxes, compensating use taxes, and drivers' license and vehicle registration fees. KDOT also has four outstanding series secured by pledges of revenues from loans and leases. Please reference Note III, Section I. Long-term Obligations, above for KDOT revenue bonds and future principal and interest payments.

# III. Detailed Notes On All Funds

The coupon interest rate on outstanding bonds varies from 2.25 percent to 5.50 percent. In addition, various bonds were issued as variable rate instruments whose rates change on a weekly basis. During the year, interest rates ranged from 0.02 percent to 0.42 percent on the weekly adjustable bonds. The Series 2002 B and C and 2004 C bonds are subject to tender under certain conditions. If the tendered bonds cannot be remarketed, various liquidity providers have agreed to purchase the bonds and hold them for a maximum of 180 days. Contracts with these liquidity providers have expiration dates ranging from September 2014 to September 2017 and require annual commitment fees ranging from 0.325% to 0.500%. the liquidity provider agreement expiring in September 2013 was extended until September 2014 with the rate decreased from 0.525% to 0.34%. Since there is not a long-term financing option in place at June 30, 2014 for bonds that have been tendered, the demand obligation bonds have been recorded as liabilities of the Transportation - Capital Projects Fund resulting in a deficit fund balance in that fund. This liquidity provider contract was extended from March 2014 to September 2017 and requires an annual commitment fee of 0.325%.

**Sales Tax Limited Obligation Bonds**

In March 1998, the Unified Government of Wyandotte County/Kansas City, Kansas established the Prairie Delaware Redevelopment District (District). The District was created for development of a major tourism area, including the Kansas International Speedway. In connection with various projects in the District, the Unified Government has issued Sales Tax Limited Obligation Revenue Bonds (STAR bonds). Pursuant to issuance of the STAR bonds, the Unified Government and the State have entered into a Redevelopment District Tax Distribution Agreement. The agreement provides that the principal of, accreted value, and interest on the STAR bonds will be paid proportionally by the Unified Government and the State, based on each entity's respective share of sales taxes generated within the District. Prior to July 1, 2010, the State's proportional share was approximately 72 percent. Therefore, 72 percent of the outstanding obligation on each STAR bond issue was recorded with the State's long-term debt. This proportional share changed on July 1, 2010, with the increase of 1% in the State sales tax rate. The proportional share increased to 75 percent and the increase is reflected in the amounts recorded in the long term debt. In addition, the State's proportional share in the 2010 B bond issue is capped at $144.5 million.

In March 2006, the City of Hutchinson created the Underground Salt Museum Redevelopment District. The District was created for the development of the Kansas Underground Salt Museum as a tourist destination. The City issued Sales Tax Limited Obligation Revenue Bonds (STAR bonds). Pursuant to issuance of the STAR bonds, the City and the State have entered into a Redevelopment District Tax Distribution Agreement. The agreement provides that the principal of, accreted value, and interest on the STAR bonds will be paid proportionally by the City and the State, based on each entity's respective share of sales taxes generated within the District. Prior to July 1, 2010, the State's proportional share was approximately 83 percent. Therefore, 83 percent of the outstanding obligation on each STAR bond issue was recorded with the State's long-term debt. This proportional share changed July 1, 2010, with the increase of 1% in the state sales tax rate. The proportional share increased to 86 percent and the increase is reflected in the amounts recorded in the long term debt. Further details regarding STAR bonds may be found in the chart at the beginning of Note III, Section I. Long-term Obligations.

**Special Obligation and Private Activity Bonds**

Special obligation bonds have various revenue streams that are pledged for repayment of principal and interest. These bonds are special limited obligations of KDFA, where neither the principal of, redemption premium, if any, nor interest on these bonds constitutes a general obligation or indebtedness of, nor is the payment thereof guaranteed by KDFA or the State. Accordingly, such special obligation bonds are not included in KDFA's June 30, 2014, balance sheet. KDFA's special obligation bonds at June 30, 2014, total $2.5 billion.

Private activity bonds are special limited obligations of KDFA and are made payable solely from a pledge of the applicable trust estate that is comprised of a particular designated revenue stream of the borrower. Accordingly, such private activity bonds are not included on KDFA's June 30, 2014, balance sheet. KDFA's private activity bonds at June 30, 2014, total $2.0 billion.

# III. Detailed Notes On All Funds

**Notes Payable**

The Pooled Money Investment Board is authorized as directed by statute to loan funds from the State treasury to State agencies for various capital projects, the Unemployment Insurance Fund and finance the Expanded Lottery operations. These internal loans are recorded as loans receivable in the State treasury's cash balance in Note III, Section A, Deposits and Investments, and in corresponding amounts of notes payable in Note III, Section I, Long-term Obligations.

The Kansas Water Office is charged by statute to meet, as nearly as possible, the anticipated future water supply needs of the citizens of Kansas. The agency has executed several water supply storage agreements with the Federal Government over the past 38 years for water supply storage capacity in large Federal multipurpose lakes under the provisions of the 1958 Federal Water Supply Act. Nine of these agreements provide for long-term (fifty-year) repayment with interest of the costs incurred by the Federal Government in construction of the water supply storage space. The Kansas Water Office is authorized by K.S.A. 82a-934 to enter into such agreements, subject to legislative approval through appropriations. Generally, however, receipts from the sale of water to local municipal and industrial water supply users are adequate to make the annual payments due under the long-term contracts with the Federal Government. Portions of the storage in some reservoirs have been designated as “future use” storage, and as such; the State is not required to make payments on that portion of storage until it is needed by users. The State has not recorded a liability at June 30, 2014, for portions of the storage designated as “future use” storage.

**Lease Commitments**

The State leases office buildings, space, and equipment. Although the lease terms vary under a variety of agreements, most leases are subject to annual appropriations from the State Legislature to continue the lease obligations. If a legislative appropriation is reasonably assured, leases are considered non-cancelable for financial reporting purposes. Any escalation clauses, sublease rentals, and contingent rents are considered immaterial to the future minimum lease payments and current rental expenditures.

**Operating Leases**

The State has commitments with non-state entities to lease certain buildings and equipment. Future minimum rental commitments for building and equipment operating leases as of June 30, 2014 are as follows (expressed in thousands):

| Fiscal Year | | |
|---|---|---|
| 2015 | $ | 8,773 |
| 2016 | | 8,071 |
| 2017 | | 7,807 |
| 2018 | | 7,244 |
| 2019 | | 6,665 |
| 2020-2024 | | 26,749 |
| 2025-2029 | | 11,455 |
| Total future minimum lease payments | $ | 76,764 |
| | | |
| Rent expenditures/expenses for operating leases for the year ended June 30, 2014 | $ | 7,766 |

# III. Detailed Notes On All Funds

### Capital Leases

The State has entered into agreements to lease various facilities and equipment. Such agreements are, in substance, purchases and are reported as capital lease obligations. At the date of acquisition, the assets are valued on the Statement of Net Position at the present value of the future minimum lease payments. Interest expense for capital leases is not capitalized.

The following schedule presents future minimum lease payments as of June 30, 2014 (expressed in thousands):

| Year Ending | Governmental Activities | |
|---|---|---|
| June 30 | Principal | Interest |
| 2014 | $ 13,109 | $ 4,145 |
| 2015 | 5,610 | 3,307 |
| 2016 | 5,567 | 3,078 |
| 2017 | 5,689 | 2,852 |
| 2018 | 5,753 | 2,617 |
| 2019-2023 | 26,067 | 9,547 |
| 2024-2028 | 24,271 | 4,345 |
| 2029-2033 | 4,961 | 345 |
| **Total** | $ 91,027 | $ 30,236 |

Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2014, include the following (expressed in thousands):

| | Governmental Activities |
|---|---|
| Land (non-depreciable) | $ 9,635 |
| Buildings | 86,507 |
| Software | 18,381 |
| Equipment | 20,442 |
| Less: Accumulated depreciation | (55,673) |
| Total | $ 79,292 |

### Master Lease Purchase Program

The Master Lease Purchase Program, administered by the Department of Administration, provides low interest, equipment lease purchase financing and energy conservation project financing to State agencies. The Program began in 1985 with the issuance of Certificates of Participation and evolved into the current Program, which utilizes lines of credit. Lease purchase obligations under the Program are not general obligations of the State, but are payable from appropriations of State agencies participating in the Program, subject to annual appropriation. Financing terms of two years through fifteen years are available. The financing term should not exceed the useful life of the purchased item. The interest component of each lease/purchase payment is subject to a separate determination.

# III. Detailed Notes On All Funds

***Defeasance of Debt***

**Primary Government**

For financial reporting purposes, the State has in substance defeased certain bonds by issuing additional debt. Thus, the related liability and trust assets to pay the defeased bonds have been removed from the financial statements in the year of defeasance. Defeased debt at June 30, 2014, and changes for the fiscal year then ended are as follows (expressed in thousands):

| Bond Issue | 6/30/2013 Beginning Balance | Current Year Defeased | Payments | 6/30/2014 Ending Balance |
|---|---|---|---|---|
| **Governmental Activities** | | | | |
| KDOT Series 1998 | $ 12,020 | $ - | $ - | $ 12,020 |
| KDFA Series 2003 J | 3,060 | - | 3,060 | - |
| KDOT Series 2004 A | 3,370 | - | 3,000 | 370 |
| KDFA Series 2004 A-1 & 2 | 173,765 | 25,450 | 199,215 | - |
| Total governmental activities | $ 192,215 | $ 25,450 | $ 205,275 | $ 12,390 |

During fiscal year 2014, the governmental activity bond issue, $25.5 million KDFA Series 2004 A-1 and A-2 was currently refunded by the issuance of the KDFA Series 2013A and 2013B for $23.4 billion. The current refunding resulted in an economic gain of $2.3 million and aggregate debt service reduction of $2.8 million.

| Bond Issue | 6/30/2013 Beginning Balance | Current Year Defeased | Payments | 6/30/2014 Ending Balance |
|---|---|---|---|---|
| **Business-type Activities** | | | | |
| KDFA Series 2004 II | 13,220 | 0 | 13,220 | 0 |
| KDFA Series 2004 2 | 86,470 | 0 | 77,420 | 9,050 |
| KDFA Series 2008 CW II | 38,895 | 0 | 38,895 | 0 |
| KDFA Series 2008 DW 1 | 21,345 | 0 | 0 | 21,345 |
| Total business-type activities | $ 159,930 | $ 0 | $ 129,535 | $ 30,395 |

**Component Unit**

For financial reporting purposes, the Kansas Development Finance Authority has in substance defeased certain revenue and lease revenue bonds by issuing additional debt. Thus, the related liability and trust assets to pay the defeased lease revenue bonds have been removed from the financial statements in the year of defeasance. Defeased debt at June 30, 2014, and changes for the fiscal year then ended are as follows (expressed in thousands):

| Bond Issue | 6/30/2013 Beginning Balance | Current Year Defeased | Payments | 6/30/2014 Ending Balance |
|---|---|---|---|---|
| KDFA Series 2003 J-1 | $ 18,300 | $ 0 | $ 18,300 | $ 0 |
| KDFA Series 2003 A-1 & 2 | 0 | 1,225 | 0 | 1,225 |
| KDFA Series 2004 D | 0 | 615 | 0 | 615 |
| KDFA Series 2004 G-1 | 0 | 12,545 | 12,545 | 0 |
| KDFA Series 2005 A | 0 | 34,905 | 0 | 34,905 |
| KDFA Series 2005 E-1 & 2 | 0 | 13,655 | 0 | 13,655 |
| KDFA Series 2007 A | 0 | 15,325 | 0 | 15,325 |
| Total component units | $ 18,300 | $ 78,270 | $ 30,845 | $ 65,725 |

**Arbitrage Rebate Payable**

Estimated arbitrage rebate payables have been calculated and liabilities recorded of $190 thousand for Governmental Activities, $190 thousand for Business-type Activities, and $49 thousand for Component Units.

# III. Detailed Notes On All Funds

***Derivative Instruments***

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2014, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2014 financial statements are as follows debit (credit) (expressed in thousands):

| | Change in Fair Value | | Fair Value at June 30, 2014 | | |
|---|---|---|---|---|---|
| | **Classification** | **Amount** | **Classification** | **Amount** | **Notional** |
| **Governmental activities** | | | | | |
| Cash flow hedges: | | | | | |
| Pay-fixed interest rate swaps | Deferred outflow of resources | $ (3,093) | Debt | $ (23,024) | $ 435,490 |
| Investment derivative instruments: | | | | | |
| Pay-fixed interest rate swaps | Investment revenue | 1,084 | Investment | (8,134) | 75,000 |
| Basis swap | Investment revenue | 5,506 | Investment | 0 | 0 |

KDOT engaged an independent party to perform the valuations and required tests on the swaps. Of the swaps that qualify for hedge accounting under GASB 53, the changes in fair value for this period are to be offset by a corresponding deferred inflow/outflow account on the statement of net position.

All pay-fixed swap transactions are associated with variable debt. Combining a pay-fixed receive-variable rate swap with variable debt results in what is termed “synthetic” fixed rate debt. It is called “synthetic” because the economics are similar to fixed rate debt, but another instrument is involved unlike regular fixed rate debt. Each time KDOT created “synthetic” fixed rate debt, a comparison and determination was made that the fixed rate on regular debt would have been higher than the fixed rate on the swap.

For all swaps, there are three main strategies KDOT pursues with respect to each transaction. Each swap can achieve one or more of these strategies. Then as a result of execution of the derivative, its value will change with respect to how prevailing rates on each reporting period compare to when the derivative was put in place. The accumulated changes in fair value, or total fair value of all the derivatives, are a function of how prevailing interest rates and other market factors affect each transaction at each reporting period. Pursuant to GASB 53, each swap transaction is then evaluated to determine what type of accounting treatment to apply.

(i) <u>Mitigate the effect of fluctuations in variable interest rates.</u> This is the primary function of the swaps employed where KDOT pays a fixed rate, and receives a floating rate. In an interest rate environment whose level is generally higher than the rate at which KDOT is fixed, the swap would result in a positive value to KDOT. Correspondingly, in a lower rate environment than the rate at which KDOT is fixed, the swap would result in a negative value to KDOT. The value primarily depends on the overall level of interest rates on the reporting date compared to what KDOT pays. The overall level of long term interest rates from period to period is the primary driver of changes in value recorded from the investment derivatives where KDOT pays fixed and receives a floating rate. Interest rates have trended lower since inception of the pay fixed swaps. Therefore, the mark-to-market value is generally more negative to KDOT.

# III. Detailed Notes On All Funds

(ii) Reduce interest expense from expected benefit resulting from the difference between short and long term rates. This is the function of a swap where KDOT receives floating amounts based on a longer term index with the expectation of receiving an ongoing net benefit compared to short term rates paid on the variable bonds being hedged. Longer term interest rates, such as the 10 Year Constant Maturity Swap (CMS) Index, are generally higher than shorter term interest rates, such as a weekly rate, which KDOT pays on the variable bonds. Therefore, when shorter term interest rates came close to, or exceeded longer term rates, KDOT entered into a swap whose receipts on the floating leg are based on a longer term index that is expected to outperform the payments on KDOT's variable debt. Part of the fair value of this swap is determined by the prevailing level of short term versus long term rates, that is, the steepness of the yield curve. The higher the level of long term rates compared to shorter term rates, the higher the expected benefit to KDOT, therefore, the higher the mark-to-market value of the swap. KDOT pays a fixed rate on the swap transactions; therefore the other part of the value of this swap is determined by the prevailing level of interest rates compared to when KDOT entered into the swap transaction. Since interest rates have trended lower since inception, the mark-to-market value will be more negative to KDOT, even though KDOT may be receiving a net benefit from the receipts based on the 10 Year CMS Index. Since the long term index is expected to out-perform the short-term variable rate, the tests under GASB 53 deem such transactions investment instruments.

(iii) Reduce interest expense from expected benefit resulting from the difference between tax-exempt and taxable rates. This is a function of swaps where KDOT receives a percentage of 1-Month LIBOR when hedging tax-exempt variable debt, with the expectation of receiving an ongoing net benefit from paying a lower fixed rate at the time of putting on the swap transaction. The historical average ratio of 1-Month LIBOR (short-term taxable rates) versus tax-exempt rates (a direct function of tax rates) is approximately 67 percent, but the ratio of long-term taxable rates and long-term tax-exempt rates is normally significantly higher than 67 percent. Therefore, the fixed rate payable in exchange for a smaller percentage of LIBOR will be significantly less than a long-term tax-exempt fixed rate. This reduction in fixed rate is the value of the benefit (the risk being tax rates change over the life of the percentage of LIBOR swap) or the variable rates on KDOT's hedged bonds do not closely match the percentage of LIBOR variable rate on the swap. The value of such a swap is determined by the prevailing level of taxable interest rates, with no reference to tax-exempt interest rates.

The following table provides a summary of the basic terms of the swap agreements as of June 30, 2014 (expressed in thousands):

| Associated KDOT Bonds | Initial Notional | Current Notional | Effective Date | Maturity Date | Rate Paid | Rate Received | Fair Value | Bank Counterparty | Counterparty Rating |
|---|---|---|---|---|---|---|---|---|---|
| Series 2002 B &C* | $ 200,000 | $ 147,632 | 10/23/2002 | 9/1/2019 | 3.164% | 67%of USD-LIBOR | $ (11,746) | Goldman Sachs Bank USA | A2/A-/A |
| Series 2002 B &C* | 120,005 | 88,583 | 3/1/2012 | 9/1/2019 | 3.1640%Contractual; 0.8166%GASB 64 At-the-Market | 67%of USD-LIBOR | (230) | The Bank of New York Mellon | Aa2/AA-/AA- |
| Series 2012 A* | 150,275 | 127,275 | 5/7/2012 | 9/1/2015 | 3.3590%Contractual; 0.2254%GASB 53 At-the-Market the-Market | Lesser of ABR/71%of USD-LIBOR 'til 9/2010; 71%of USD-LIBOR thereafter | (123) | Merrill Lynch Dierivative Products AG Products AG | Aa3/A+/NR |
| Series 2004 C* | 147,000 | 72,000 | 11/23/2004 | 9/1/2024 | 3.571% | 63.5%USD-LIBOR + 0.29% | (11,048) | Goldman Sachs Bank USA | A2/A-/A |
| Series 2004 C** | 75,000 | 75,000 | 7/1/2007 | 9/1/2024 | 3.571% | 62.329%of 10 Year CMS | (8,011) | Goldman Sachs Bank USA | A2/A-/A |
| | | | | | | Total Termination Value | $ (31,158) | | |

*- considered a fair value hedge
**- considered an investment derivative

# III. Detailed Notes On All Funds

**KDOT derivative instruments detailed discussion**

*Objective of the swaps.* In order to protect against the potential of rising interest rates, KDOT has entered into four separate pay-fixed, receive-variable interest rate swaps at a cost less than what KDOT would have paid to issue fixed-rate debt.

*Terms, fair values, and credit risk.* The terms, including the fair values and credit ratings of the outstanding swaps as of June 30, 2014, are shown above. KDOT's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled or anticipated reductions in the associated bonds payable.

*KDOT Series 2002B and C Swaps* - In connection with the issuance of $320 million of variable-rate KDOT Series 2002B & C Highway Revenue Refunding Bonds, on October 3, 2002, KDOT competitively bid a floating-to-fixed 67 percent of LIBOR interest rate swap. Goldman Sachs was awarded $200 million of notional principal and Salomon Smith Barney was awarded $120 million of notional principal. The executed transaction consisted of a $320 million 17-year amortizing interest rate swap under which KDOT pays Goldman/Citibank a fixed rate of 3.164 percent and receives 67 percent of LIBOR. KDOT was able to take advantage of market conditions and effectively create fixed-rate debt at a rate lower than available in the traditional tax-exempt cash market.

On March 1, 2012, KDOT assigned with no termination payment due to or from KDOT, the Series 2002 B & C swap that was with Citigroup Financial Products Inc. as counterparty to The Bank of New York Mellon, a bank counterparty with stronger credit ratings. According to GASB 64, KDOT terminated hedge accounting on the swap with the prior counterparty, and adopted hedge accounting on the new At-the-Market swap with a fixed rate computed at prevailing interest rates on the day of termination.

*KDOT Series 2012A Swap (formerly 2008A, 2003C Swap)* - In connection with the issuance of $150.3 million of variable-rate KDOT Series 2003C Highway Revenue Refunding Bonds, KDOT competitively bid a floating-to-fixed interest rate swap on November 20, 2003. The executed transaction consisted of a $150.3 million 12-year amortizing floating-to-fixed interest rate swap whereby KDOT pays the counterparty a fixed rate of 3.359 percent and receives the lesser of the Actual Bond Rate and 71 percent of one month LIBOR until September 1, 2010, and 71 percent of LIBOR thereafter. KDOT was able to take advantage of market conditions and effectively create fixed-rate debt at a rate lower than available in the traditional tax-exempt cash market.

On May 13, 2008, KDOT refunded the Series 2003C Bonds with KDOT Series 2008A Bonds. Under GASB 53, a refunding can be viewed as a termination of an existing hedging relationship and a subsequent new hedging relationship is entered into between the swap and new bonds. This can result in a hybrid instrument that consists of an At-the-Market fixed rate swap with a pay fixed rate computed on the date of the refunding, and an imputed borrowing that is considered a cost of refunding, and therefore amortized over the shorter of the life of the new bonds or refunded bonds.

On May 7, 2012, KDOT assigned with no termination payment due to or from KDOT the Series 2008A swap that was with Citigroup Financial Products Inc. as counterparty to The Bank of New York Mellon, a bank counterparty with stronger credit ratings. According to GASB 64, KDOT terminated hedge accounting on the swap with the prior counterparty and continues with hedge accounting on a new At-the-Market swap with a fixed rate computed at prevailing interest rates on the day of termination.

On August 30, 2012, KDOT refunded the Series 2008A Bonds with Series 2012A Bonds. Under GASB 53, a refunding can be viewed as a termination of an existing hedging relationship and a subsequent new hedging relationship is entered into between the swap and new bonds. This can result in a hybrid instrument that consists of an At-the-Market fixed rate swap with a pay fixed rate computed on the date of the refunding, and an imputed borrowing that is considered a cost of refunding, and therefore amortized over the shorter of the life of the new bonds or refunded bonds.

*KDOT Series 2004B and C Swaps* - In connection with the issuance of $147 million of variable-rate KDOT Series 2004B and 2004C Highway Revenue Bonds, on November 12, 2004, KDOT competitively bid a floating-to-fixed

# III. Detailed Notes On All Funds

interest rate swap. The executed transaction consisted of a $147 million 20-year amortizing floating-to-fixed interest rate swap whereby KDOT pays the counterparty a fixed rate of 3.571 percent and receives 63.5 percent of LIBOR plus 29 basis points. KDOT was able to take advantage of market conditions and effectively create fixed-rate debt at a rate lower than available in the traditional tax-exempt cash market.

Since many tax-exempt and municipal issuers fund capital projects with long-term traditional or synthetic fixed-rate debt, but are constrained to investing short-term for liquidity reasons, in a normal or upwardly sloped yield curve they incur “negative carry” (cost of borrowing exceeds investment rate). KDOT determined that it could mitigate this imbalance through the execution of the two Constant Maturity Swaps (CMS). On June 15, 2007, based on the results of a previously distributed competitively bid request for quotes for a swap provider, effective July 1, 2007, KDOT amended the floating index from 63.5 percent + 29 basis points to 62.329 percent of the 10-year LIBOR CMS rate on $75 million of the existing $147 million swap.

On March 11, 2014, KDOT terminated a $75 million CMS where KDOT paid a floating rate of 67 percent of LIBOR in exchange for receiving 61.56 percent of 10-year LIBOR CMS rate, with JP Morgan Chase Bank, N.A. as the counterparty. The counterparty paid KDOT a termination amount of $5.3 million.

*Fair value.* These fair values take into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market’s best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

*Credit risk.* KDOT has no credit risk exposure on the rest of the swap transactions because the swaps have negative fair values, meaning the counterparties are exposed to KDOT in the amount of the derivatives' fair values. However, should interest rates change and the fair values of the swaps become positive, KDOT would be exposed to credit risk.

The swap agreements contain varying collateral agreements with the counterparties. The swaps require collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds.

*Basis risk.* Basis risk is the risk that the interest rate paid by KDOT on underlying variable rate bonds to bondholders differs from the variable swap rate received from the applicable counterparty. KDOT bears basis risk on each of its swaps. The swaps have basis risk since KDOT receives a percentage of LIBOR to offset the actual variable bond rate KDOT pays on its bonds. KDOT is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate KDOT pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost savings from the swap may not be realized.

*Termination risk.* KDOT or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap had a negative fair value, KDOT would be liable to the counterparty for a payment equal to the swap’s fair value.